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State Department review
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25X1

25X1A

SUMMARY

GENERAL

1. Drastic Soviet measures against EDC predicted (page 3).

25X1

3. Orbit trade reprisals against Italy feared (page 4).

25X1

6. Bao Dai disturbed over government's lack of progress (page 6).

WESTERN EUROPE

7. German Bishop believes Communists would accept a neutral Germany (page 6).

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25X1A

25X1A

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GENERAL

1. Drastic Soviet measures against EDC predicted:

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[redacted], who may intend that his remarks be transmitted to Western governments, states that the USSR will take drastic steps to prevent the development of the European

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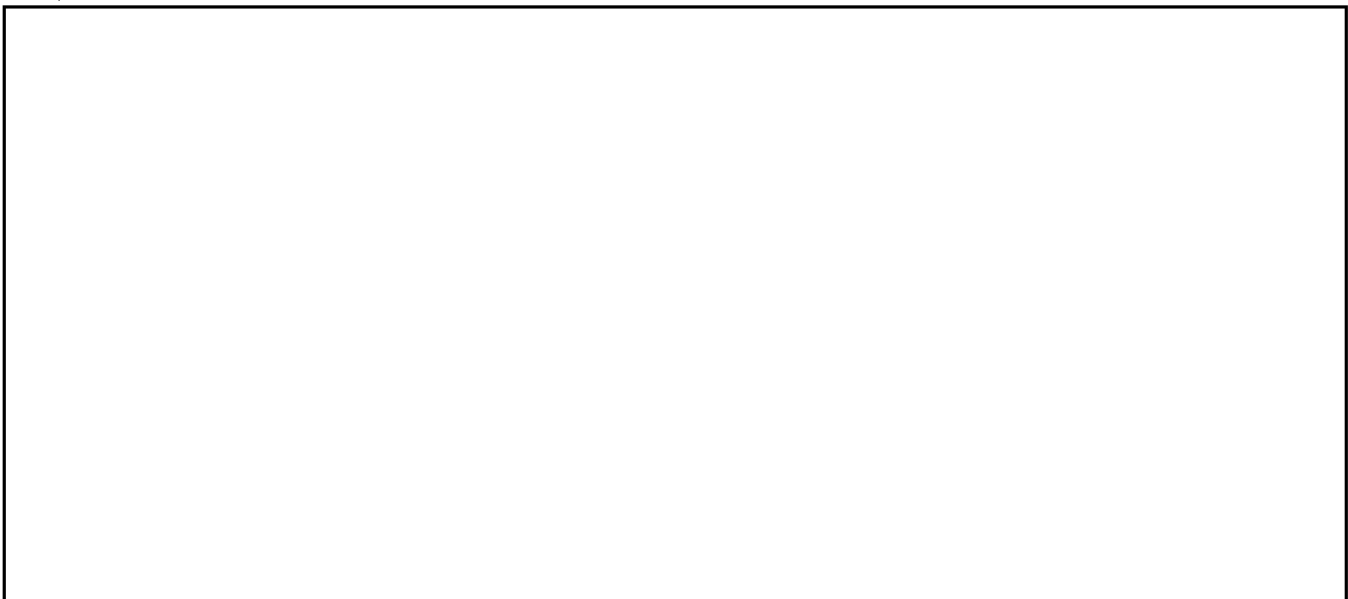
Defense Community. [redacted] the Soviet measures, which may be expected as soon as the EDC agreement is ratified by either the French or German parliament, will include an appeal to the International Court of Justice and a "total" blockade of Berlin.

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Comment: American officials in Bonn are concerned over a possible resort to last-minute scare tactics on the part of the USSR to block the integration of Germany with the West.

A sharper and more urgent tone regarding a German peace treaty recently has emanated from the Soviet-controlled press of East Germany. Arguments and appeals have attempted to incite the Germans to overt action, such as mass demonstrations and strikes, aimed at preventing conclusion of the contractual agreements.

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3. Orbit trade reprisals against Italy feared:

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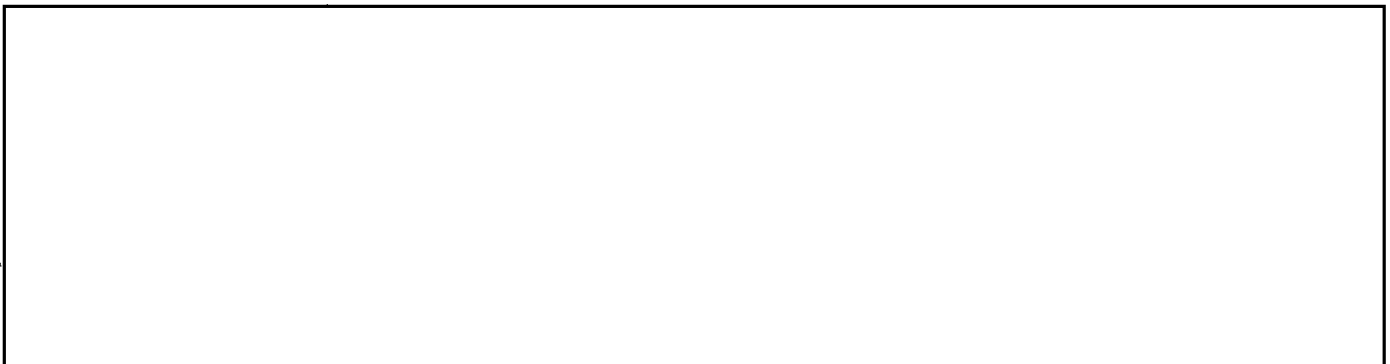
American Embassy officials in Rome believe that the Orbit will take serious retaliatory measures if two pending trade deals between Italy and the Soviet Orbit are cancelled because of the Battle Act. One involves the shipment of 800,000 dollars worth of rolling mill parts to Poland in return for 15 million dollars worth of coal; the second provides for shipment to

Czechoslovakia of 1,440,000 dollars worth of "category B" ball bearings, a non-strategic size.

Italy, which badly needs coal, fears that cancellation of the rolling mill shipment would bring Polish retaliation and hence force it to expend dollars for US coal.

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Comment: Poland's apparent eagerness to dispose of its coal surplus, even at some disadvantage, was shown in recent transactions with Scandinavia. Thus it would appear unlikely that Poland would undertake serious retaliation if Italy failed to provide the rolling mill parts.



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6. Bao Dai disturbed over government's lack of progress:

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[REDACTED] In an interview with American Minister Heath, Bao Dai pointed out the uselessness of attempting to form a more representative government until the actions of the local French regime make Vietnamese independence a reality. He deplored French meddling in Vietnam Government affairs and described as "intolerable" disregard of Vietnamese laws, notably tax legislation, by French citizens.

Heath comments that Bao Dai is partially to blame for the weak Vietnamese Government in that he has not provided energetic leadership.

Comment: The Vietnam Government is still unable to attract the popular support necessary to counter the Viet Minh's appeal. The French have deplored to American officials Bao Dai's inertia, but there is evidence that they have not assiduously tried to arouse him to action.

The new French diplomatic counsellor in Saigon states that Resident Minister Letourneau intends to replace "old colonialist" officials with men not previously associated with Indochina.

The French have been committed since early 1947 to the formation of a genuinely Vietnamese Government, but the proposed replacement of the "old colonials" in Indochina has not materialized.

WESTERN EUROPE

7. German Bishop believes Communists would accept a neutral Germany:

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[REDACTED] American officials in Berlin believe that the recent proposal of Evangelical Bishop Dibelius for all-German elections to be supervised by the Evangelical and Catholic Churches is primarily a maneuver to generate pressure for German unification and for a four-power conference.

- 6 -

25X1A

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Dibelius, who is the head of the all-German Evangelical Church, is alarmed at the thought of a permanent split of Germany, which would mean the division of German Protestantism. He tends to believe that the Communists would agree to a unified, neutralized Germany. He also reportedly feels that the West, the United States in particular, is not sincerely interested in Germany's unification.

Catholic circles give the impression that their church considers the proposal naive and will have nothing to do with it.

Comment: Most West Germans believe that unification with East Germany will be almost impossible to achieve under present conditions. They resent, however, any western action which would preclude unity, and are concerned over the increasing Allied insistence on integration.

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